

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

PERIODIC REPORTING
(PROPOSAL ELEVEN)

Docket No. RM2015-4

PETITION OF THE UNITED STATES POSTAL SERVICE FOR THE
INITIATION OF A PROCEEDING TO CONSIDER PROPOSED CHANGES
IN ANALYTICAL PRINCIPLES (PROPOSAL ELEVEN)
(November 4, 2014)

Pursuant to 39 C.F.R. § 3050.11, the Postal Service requests that the Commission initiate a rulemaking proceeding to consider a proposal to change analytical principles relating to the Postal Service's periodic reports. The proposal, labeled Proposal Eleven, is discussed in the attached text.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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Proposal Eleven

CHANGE IN THE ATTRIBUTION OF DEBIT AND CREDIT CARD FEES

PROPOSAL:

The Postal Service proposes to change the distribution key for assigning the costs of debit and credit card fees to products. The new distribution key will be based upon revenue that is generated when debit or credit cards are used to pay the Postal Service for products or services. This proposed change will align the cost created by the use of debit and credit cards with the products and services that are procured when they are used. The proposal redefines the methodology for determining the attributable costs and distributing them to products (distribution key).

RATIONALE:

In recent years the use of debit and credit cards to purchase products and services from the Postal Service has increased significantly. As a result, the fees paid by the Postal Service to the banks for facilitating these purchases have also increased. This increase in use and fees prompted the Postal Service to review its determination of how the debit and credit card fees are attributed. Each time a debit or credit card is used to purchase postal products and services, the Postal Service is charged a fee by the card issuers and processors. These fees, incurred on a per-transaction basis, are mainly a percent of sale fee charged to the merchant, in this case the Postal Service.

The payments of the debit and credit card fees are recorded in the general ledger in two accounts. The fees posted to general ledger account 52359, *Professional and Other Miscellaneous Services* are currently assigned to Cost Segment 16.3, *Other Supplies and Services* and distributed to products using total postal labor costs. The fees posted to general ledger account 52426, *Credit and Debit Card Services* are currently assigned to Cost Segment 13.3, *Federal Reserve and Commercial Banks*. They are assigned the window service volume variability and distributed to products based on window service direct labor costs. The current methodology results in approximately 42 percent of the total debit and credit card fees being classified as volume variable. The remaining 58 percent of the fees are classified as institutional costs, and therefore are not assigned to any products. This volume variability does not reflect the actual incurrence of the fees. The revenue from the products purchased with the cards precipitate the fees. The debit and credit card fees are mainly a predetermined percentage of the cards' transaction revenue, and therefore should be fully variable with the applicable revenue.

To allocate the debit and credit card fees to products, a distribution key was developed using the total revenue from purchases made with debit or credit cards. Each year, payment tender reports for revenue by product will be run from each of the major revenue reporting systems (e.g., POS, Click-n-Ship, etc.). The revenue identified from these sources will be combined and grouped by product. Each product's percentage of the total revenue paid by debit and credit cards will be calculated and the resulting percentage will serve as the distribution for debit and credit card fees. This process will be completed annually in order to align the fees with the products that were purchased.

The revenue from any newly-added systems that accept debit and credit cards will be included in this calculation as appropriate. The distribution key created will be applied to the aggregate fee amounts identified in the general ledger accounts 52359 and 52426.

IMPACT:

With this adjustment, the Postal Service can more accurately assign the debit and credit card fees to the products that were purchased. As a result of no longer using the window service volume variability as the basis for the variability for the debit and credit card fees, a higher percentage of the debit and credit card fees will be attributed to the products or services that caused the fees. As shown below, the current methodology attributed approximately \$83.3M of the \$200M fees to products or services in fiscal year 2013. Under the proposed methodology, approximately \$196.9M of the fiscal year 2013 fees would have been attributed to products or services. The remaining \$3.1M, which encompasses costs associated with non-postal products, agency-assisted and philatelic purchases, etc., or costs that are not specifically related to any postal product, would be classified as institutional. Going forward, all of the debit and credit card fees will be captured in Cost Segment 13.3.

A comparison of the fiscal year 2013 debit and credit card distribution keys using the current and proposed methods for market dominant products is provided below. An expanded set of impact tables showing comparable figures for competitive products as well is provided under seal in USPS-RM2015-4/NP1.

Comparison of Debit and Credit Card Fees Distribution for FY 2013

CLASS, SUBCLASS, OR SPECIAL SERVICE	Current Distribution	Proposed Distribution
Market Dominant Products		
FIRST-CLASS MAIL		
SINGLE-PIECE LETTERS	8.55%	27.59%
SINGLE-PIECE CARDS	0.37%	0.03%
PRESORT LETTERS	1.61%	0.00%
PRESORT CARDS	0.06%	0.00%
SINGLE PIECE FLATS	1.73%	1.16%
PRESORT FLATS	0.02%	0.00%
PARCELS	1.50%	10.00%
TOTAL FIRST-CLASS	13.85%	38.78%
STANDARD MAIL		
HIGH DENSITY & SATURATION LETTERS	0.15%	0.16%
HIGH DENSITY & SATURATION FLATS & PARCELS	0.28%	0.32%
EVERY DOOR DIRECT MAIL - RETAIL	0.02%	0.30%
CARRIER ROUTE	0.50%	0.00%
LETTERS	2.81%	0.00%
FLATS	0.75%	0.00%
NOT FLAT-MACHINABLES & PARCELS	0.05%	0.00%
TOTAL STANDARD MAIL	4.56%	0.77%
PERIODICALS		
IN COUNTY	0.04%	0.00%
OUTSIDE COUNTY	0.58%	0.00%
TOTAL PERIODICALS	0.61%	0.00%
PACKAGE SERVICES		
SINGLE-PIECE PARCEL POST	0.38%	1.60%
BOUND PRINTED MATTER FLATS	0.03%	0.00%
BOUND PRINTED MATTER PARCELS	0.10%	0.00%
MEDIA AND LIBRARY MAIL	0.43%	1.60%
TOTAL PACKAGE SERVICES	0.95%	3.20%
US POSTAL SERVICE	0.70%	0.00%
FREE MAIL	0.01%	0.00%
Total Domestic Market Dominant Mail	20.68%	42.75%

CLASS, SUBCLASS, OR SPECIAL SERVICE	Current Distribution	Proposed Distribution
Ancillary Services		
CERTIFIED	3.02%	0.71%
COD	0.01%	0.02%
INSURANCE	1.01%	0.61%
REGISTRY	0.10%	0.09%
STAMPED ENVELOPES	0.12%	0.03%
STAMPED CARDS	0.00%	0.02%
OTHER ANCILLARY SERVICES	1.99%	0.85%
Special Services		
MONEY ORDERS	2.39%	0.20%
POST OFFICE BOX	1.15%	2.98%
CALLER SERVICE	0.22%	0.00%
OTHER SPECIAL SERVICES	0.00%	0.00%
Total Domestic Market Dominant Services	10.01%	5.51%
Total Domestic Market Dominant Costs	30.69%	48.26%
Total Domestic Competitive Costs	8.56%	36.71%
INTERNATIONAL MAIL	2.39%	13.45%
TOTAL VOLUME VARIABLE COSTS	41.64%	98.42%
OTHER	58.36%	1.58%
GRAND TOTAL	100.00%	100.00%

Comparison of the Debit and Credit Card Fee Allocation for FY 2013
(Shown in Actual Dollars)

CLASS, SUBCLASS, OR SPECIAL SERVICE	Actual Debit/ Credit Card Fee Allocation, FY 2013	Proposed Debit/Credit Card Fee Allocation, FY 2013	Difference
Market Dominant Products			
FIRST-CLASS MAIL			
SINGLE-PIECE LETTERS	17,103,279	55,184,095	38,080,816
SINGLE-PIECE CARDS	746,184	67,604	(678,580)
PRESORT LETTERS	3,226,190	-	(3,226,190)
PRESORT CARDS	121,957	-	(121,957)
SINGLE PIECE FLATS	3,463,813	2,311,268	(1,152,545)
PRESORT FLATS	45,875	-	(45,875)
PARCELS	2,994,540	20,004,848	17,010,308
TOTAL FIRST-CLASS	27,701,839	77,567,816	49,865,977
STANDARD MAIL			
HIGH DENSITY & SATURATION LETTERS	297,357	312,432	15,075
HIGH DENSITY & SATURATION FLATS & PARCELS	552,282	633,029	80,748
EVERY DOOR DIRECT MAIL - RETAIL	38,201	604,771	566,570
CARRIER ROUTE	1,009,055	-	(1,009,055)
LETTERS	5,626,724	-	(5,626,724)
FLATS	1,507,516	-	(1,507,516)
NOT FLAT-MACHINABLES & PARCELS	92,670	-	(92,670)
TOTAL STANDARD MAIL	9,123,804	1,550,232	(7,573,572)
PERIODICALS			
IN COUNTY	71,248	-	(71,248)
OUTSIDE COUNTY	1,158,013	-	(1,158,013)
TOTAL PERIODICALS	1,229,262	-	(1,229,262)
PACKAGE SERVICES			
SINGLE-PIECE PARCEL POST	758,319	3,200,299	2,441,979
BOUND PRINTED MATTER FLATS	68,870	-	(68,870)
BOUND PRINTED MATTER PARCELS	200,887	-	(200,887)
MEDIA AND LIBRARY MAIL	868,768	3,194,616	2,325,848
TOTAL PACKAGE SERVICES	1,896,844	6,394,915	4,498,071
US POSTAL SERVICE	1,395,417	-	(1,395,417)
FREE MAIL	25,233	-	(25,233)
Total Domestic Market Dominant Mail	41,372,398	85,512,963	44,140,564

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CLASS, SUBCLASS, OR SPECIAL SERVICE	Actual Debit/ Credit Card Fee Allocation, FY 2013	Proposed Debit/Credit Card Fee Allocation, FY 2013	Difference
Ancillary Services			
CERTIFIED	6,044,436	1,420,877	(4,623,559)
COD	22,496	30,130	7,634
INSURANCE	2,021,132	1,224,168	(796,964)
REGISTRY	194,169	187,623	(6,546)
STAMPED ENVELOPES	234,383	53,541	(180,842)
STAMPED CARDS	5	38,602	38,597
OTHER ANCILLARY SERVICES	3,986,713	1,704,998	(2,281,716)
Special Services			
MONEY ORDERS	4,772,654	405,357	(4,367,297)
POST OFFICE BOX	2,292,516	5,959,832	3,667,316
CALLER SERVICE	449,745	-	(449,745)
OTHER SPECIAL SERVICES	-	-	-
Total Domestic Market Dominant Services	20,018,249	11,025,127	(8,993,122)
Total Domestic Market Dominant Costs	61,390,647	96,538,089	35,147,442
Total Domestic Competitive Costs	17,115,696	73,434,248	56,318,552
INTERNATIONAL MAIL	4,784,263	26,909,815	22,125,553
TOTAL VOLUME VARIABLE COSTS	83,290,606	196,882,153	113,591,547
OTHER	116,754,421	3,162,874	(113,591,547)
GRAND TOTAL	200,045,027	200,045,027	-